HOUSING MARKET OUTLOOK
Gatineau[1]

CANADA MORTGAGE AND HOUSING CORPORATION

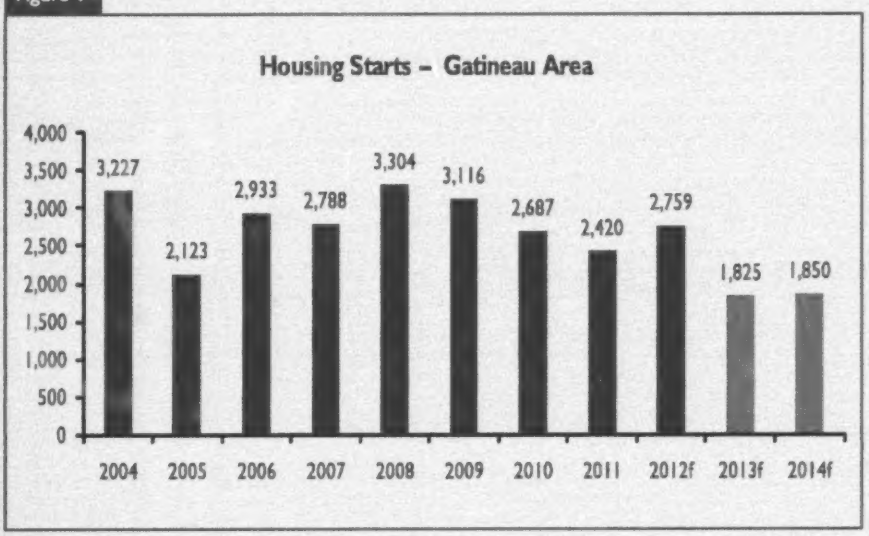
Date Released: Spring 2013

Gatineau area housing starts and resales to decrease in 2013[2]

In 2012, residential construction in the Quebec part of the Ottawa-Gatineau census metropolitan area (CMA) increased by 14 per cent from 2011, to 2,759 units. The economic and demographic environment will be less favourable in 2013, however, and housing starts will reach 1,825 units, down 34 per cent year over year.

After being particularly subdued in 2011, Centris® sales reached a new low in 2012, reaching 3,865 units (-1 per cent). In 2013, many factors, which will be detailed in this report, will cause this downward trend to

Figure 1



Source: CMHC f: CMHC forecasts

[1] Quebec part of Ottawa-Gatineau CMA

[2] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts included in this document reflect information available as of April 26, 2013.

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continue. In all, there will be 3,675 Centris® sales this year, a decrease of 5 per cent from 2012.

Labour market at a standstill

In 2012, 173,000 people were employed in the Gatineau area, a level comparable to that recorded in 2011. Since the beginning of 2013, though, a slight decrease in the level of employment has been observed in the Gatineau area. This slowdown on the labour market can be explained, in part, by the rationalization of jobs in the public sector. Beyond the employment numbers, it should also be mentioned that changes in the public sector are likely causing uncertainty for workers in this sector and, in turn, tempering their buying intentions. Job creation in the Gatineau area will therefore come essentially from the private sector this year.

Consequently, in 2013, total jobs should stay at about the same level as in 2012. In 2014, the overall improvement in the economic outlook should allow the Gatineau area to post a slight gain in employment.

Net migration expected to be stable this year

In 2012, net migration in the Gatineau area reached some 3,138 people, a level higher than the average of the last five years. This high net migration can be explained in part by a significant number of immigrants and also by a relatively significant number of Canadians who chose to settle in the Gatineau area.

However, interregional net migration[3] recorded a notable drop in the Gatineau metropolitan area, reaching only 230 people in 2012, compared to around 1,200 people annually in recent years.

In addition, this gain, while weak, was almost exclusively attributable to the municipalities located in the outlying sector of Gatineau metropolitan area. In the city of Gatineau, the main municipality in the area, interregional net migration only reached 30 people, a major decline compared to previous years. This decrease means that the demand for rental housing will probably go down this year in Gatineau.

In 2013 and 2014, the weak job prospects forecast for Gatineau will continue to limit the number of Canadian households wanting to settle in the area. The number of immigrants settling in the Gatineau area should however remain stable compared to 2012, with the provincial government's immigration targets remaining about the same for this period. Overall, net migration in the Gatineau area should reach some 3,100 people in 2013 and 2014, a level similar to that reached in 2012.

Mortgage rates to see modest and gradual increases but will remain low

In line with the consensus among private sector forecasters, increases in the target for the overnight rate by the Bank of Canada are not expected before mid-2014, later than anticipated at the time of the first quarter 2013 edition of the national *Housing Market Outlook*. This reflects the downward revisions in GDP forecasts since the publication of that edition, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42 per cent, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid-2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Resales to keep falling

After increasing in the first two quarters of 2012, Centris® sales strongly dropped in the last six months of the year. This decline can be attributed, in part, to the weak labour market. In all, 3,865 Centris® sales were registered last year, down slightly from 2011 (1 per cent).

[3] Source: Institut de la statistique du Québec

In 2013, the downward trend in sales will continue, since slightly less than 3,700 units (5 per cent) will be sold. Consequently, Centris® sales should reach a new all-time low this year. There are many factors that explain this decrease. In fact, the potential mortgage rate increase will restrict sales on the resale market. As well, the fact that the labour market will be at a standstill in the Gatineau area will prevent sales from increasing.

The supply of properties for sale listed on the Centris® system in the Gatineau area will follow a totally different trend from sales next year. Since mid-2011, active listings have in fact been on a strong upward trend. The expected slowdown in sales next year will also help maintain a greater number of homes on the market in 2013.

The faster increase in supply than demand suggests that the market will be easing in 2013 and become balanced. This easing of the market will bring about a slightly smaller increase in the average price in 2013 (+2 per cent). The average Centris® price will reach $246,000 in 2013.

It should also be mentioned that the analysis of the Gatineau market by housing type suggests that the average price should rise less significantly on the condominium market. In fact, in this market segment, the number of units listed on the Centris® system has strongly increased in the past few quarters. Several new condominium projects are also on the market. Potential buyers of resale condominiums will therefore have a broad choice, which will limit the possibility of a rise in prices. For this reason, the average price of condominiums should remain stable in 2013, at around $175,000.

Finally, in 2014, the relative stability of the economic and demographic fundamentals will cause Centris® sales to remain at about the same level as in 2013. The increase in the average price should again be moderate, given the slowdown in demand and the abundant supply of properties for sale on the market.

Housing starts to decrease in 2013

In the first four months of 2013, housing starts dropped by 58 per cent year over year in the Gatineau area. This contraction in fact impacted both the single-detached home segment (47 per cent) and the multi-unit housing segment (-60 per cent).

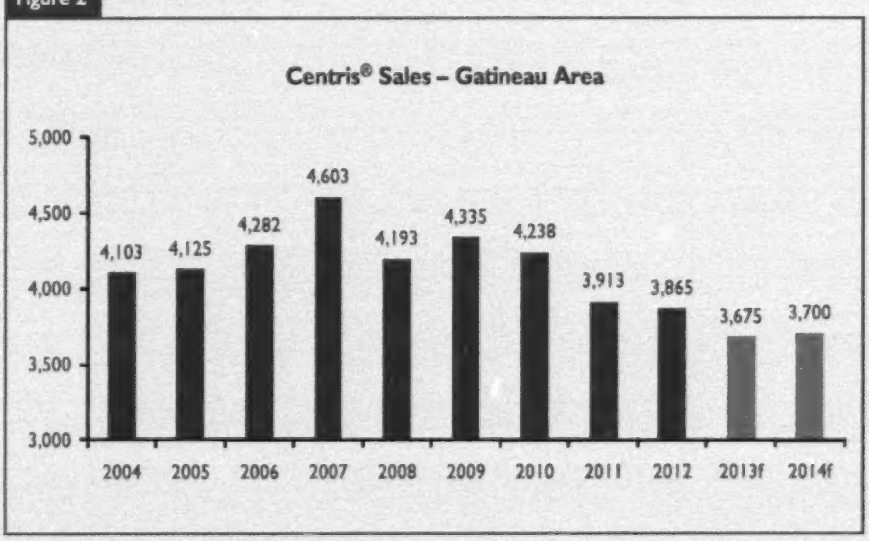
The decrease in activity observed at the beginning of the year will be the reflection of the situation that will prevail in the Gatineau area throughout 2013, since 1,825 dwellings will be started, for a decline of 33 per cent compared to 2012.

In the case of single-detached houses, a housing type that has been losing ground for several years in the Gatineau area, starts will decrease from 688 units in 2012 to 450 in 2013 (-35 per cent). In the context of a stagnant labour market and uncertainty, this drop can be explained in part by the fact that single-detached homes are generally less affordable than other housing types, which limits the number of potential buyers for such houses.

In addition to these factors, the rise in the supply of existing properties for sale will increase competition for new single-detached homes next year. Also, the number of new units that have not yet been sold in the area has risen, which will prompt area builders to slow down the pace and sell off their inventories.

Let us also mention that a revision of the City of Gatineau land use and development plan is under way. In this plan, which will come into effect in 2014, one of the options

Figure 2



Source: QFREB, statistics Centris® f: CMHC forecasts

considered is to increase the housing intensification threshold in the city of Gatineau. Should this option be chosen, the market share of single-detached homes would likely continue to decline in the city. More of the demand for this type of housing would then be met in the outlying area of the city, for example, in the municipalities of the neighbouring regional county municipalities.

In the multi-unit (semi-detached, row and apartment) housing segment, starts should reach 1,375 units in 2013, for a decrease of 34 per cent from 2012. The reasons for this drop are mostly the same as those previously mentioned in the case of single-detached houses. Certain categories of multi-unit housing types should manage better, however, given their relative affordability and the possible increase in the intensification thresholds in the city of Gatineau. Consequently, construction should begin on approximately 400 semi-detached and row home units this year, or about 100 less than last year.

The number of condominium apartments started will decrease only slightly. Two significant condominium projects totalling some 300 units are planned for 2013.[4] These units, in addition to the other smaller projects, will result in slightly over 500 condominium starts this year.

The most notable decrease in the multi-unit housing segment will be in the rental apartment category. While over 700 rental units were started in 2012, only about 400 units should be started this year. This drop can be explained by the increase in the vacancy rate that was observed last year and that will continue this year, which will make apartment rentals more difficult on account of the more abundant supply. Also, while foundations were laid for some 175 rental units in two separate projects last year, only one large rental project (90 units) will be started this year. This project will in fact be a retirement home.

In all, housing starts should fall below the 2,000-unit mark in 2013, a first since the beginning of the 2000s. On the geographic front, Aylmer will continue to see the most construction this year, thanks to the location of this sector and the lots available there. The Hull sector should see mainly condominium or rental apartment projects get under way.

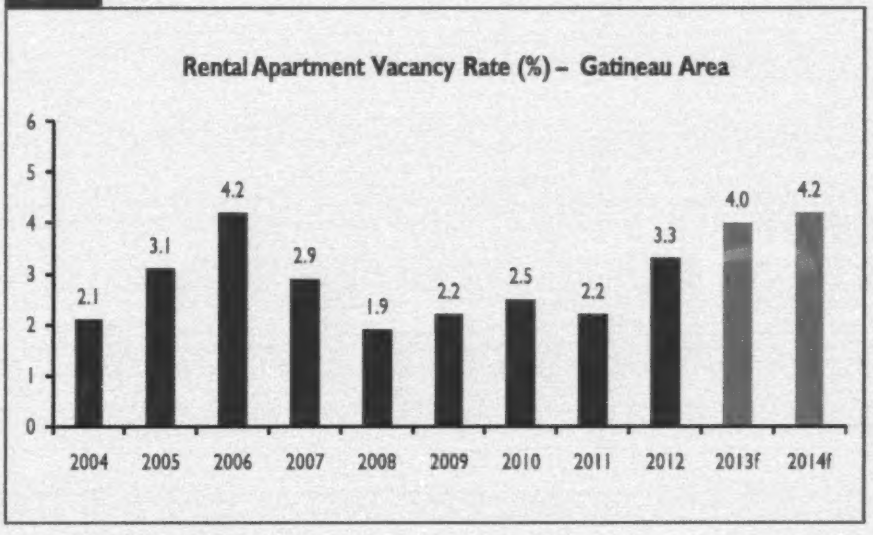
In 2014, the number of housing starts should remain relatively similar to this year's level. The number of single-detached housing starts will continue to decrease, as 425 units will be started, or 6 per cent less than in 2013. Meanwhile, a slight increase should be observed in the multi-unit housing segment. However, in 2014, it will be necessary to particularly watch for the new City of Gatineau land use and development plan and its possible impact on the area's housing market.

Rental market in easing mode

The rental housing vacancy rate in the Gatineau area was 3.3 per cent in 2012, up for the first time in five years. In 2013, this rate will increase again, reaching 4 per cent.

This rise can be mainly explained by the significant weakening of Gatineau's interregional net migration. This decrease will translate into a smaller number of renters looking for apartments this year in the Gatineau area. The expected increase in the

Figure 3



Source: CMHC f: CMHC forecasts

[4] One of the projects is located in the Hull sector, while the other is in the Aylmer sector.

vacancy rate will be moderated, however, by the high number of immigrants that will settle in the area and by the slowdown in the movement to homeownership that will occur there. Also, some 350 units should be added to Gatineau's rental housing stock in 2013, a moderate increase overall. In 2014, the vacancy rate should remain close to 4 per cent.

The average monthly rent for two-bedroom apartments will reach $760 in 2013 and $770 in 2014.

In the retirement rental market segment, the vacancy rate (17.6 per cent in 2012) should continue to fall by a few percentage points in 2013, as a result of a stable supply of units—no new privately initiated construction occurred in 2012—and an increase in the population aged 75 years or older in the area, the main client group for retirement homes.

Starts:							
Single-Detached	910	784	688	450	-34.6	425	-5.6
Multiples	1,777	1,636	2,071	1,375	-33.6	1,425	3.6
Starts - Total	2,687	2,420	2,759	1,825	-33.9	1,850	1.4
Average Price ($):							
Single-Detached	310,479	346,788	366,940	390,000	6.3	405,000	3.8
Semi-Detached	190,966	206,050	224,011	235,000	4.9	245,000	4.3
New Housing Price Index (% chg.) (Ottawa-Gatineau)	4.0	3.0	2.6	1.7	-	2.0	-
Centris® Sales	4,238	3,913	3,865	3,675	-4.9	3,700	0.7
Centris® Active Listings	1,825	2,017	2,353	2,700	14.8	2,950	9.3
Centris® Average Price ($)	217,766	232,897	239,913	246,000	2.5	250,000	1.6
October Vacancy Rate (%)	2.5	2.2	3.3	4.0	-	4.2	-
Two-bedroom Average Rent (October) ($)	711	731	743	760	-	770	-
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	168,800	172,500	173,000	172,250	-0.4	173,000	0.4

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